Chain Store Age
EXECUTIVE
with Shopping Center Age
The newsmagazine for retail operations
May 1985

AGING WITH THE BABY BOOMERS

Survey: strips or malls?

Expanded SCA Section

TWENTY DOLLARS A YEAR (USA)

Chain Store Age EXECUTIVE Volume 61, No. 5/May 1985

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Chain Store Age EXECUTIVE May 1985

With its FutureStore and its many specialty departments, A&P is hoping to attract more of the maturing Baby Boom generation.

COVER STORY

Adult Boom: The aging of the *wundergeneration*

The 70 million Americans born in the Baby Boom years, now adults, represent a whole new challenge to the retail industry

The great love affair between the retail industry and youth is ending—whether the participants like it or not.

Ever since the Baby-Boomers, those approximately 70 million Americans born between the years 1946 and 1964, first appeared on the scene, they have provided a major impetus for retail growth.

First, this generation helped to create the most rapid expansion in the history of the retail industry during the 1950's and 1960's. Then the key was providing products that appealed to the parents of this generation, those intent on providing for their offspring the very best of everything.

As the first surge of this wave hit the teenage years, the marketing strategies expanded and shifted accordingly. But youth was still the place for the retailer to be.

That's all about to change, now, though. The Baby-Boomers are all grown up. The first wave will turn 40 next year; the last wave is turning 21 this year.

Consequently, the term "Baby Boom" itself is about to become a misnomer; rather the "Adult Boom" will be "where it's at." Recognizing the ramifications is a major challenge for the retail industry.

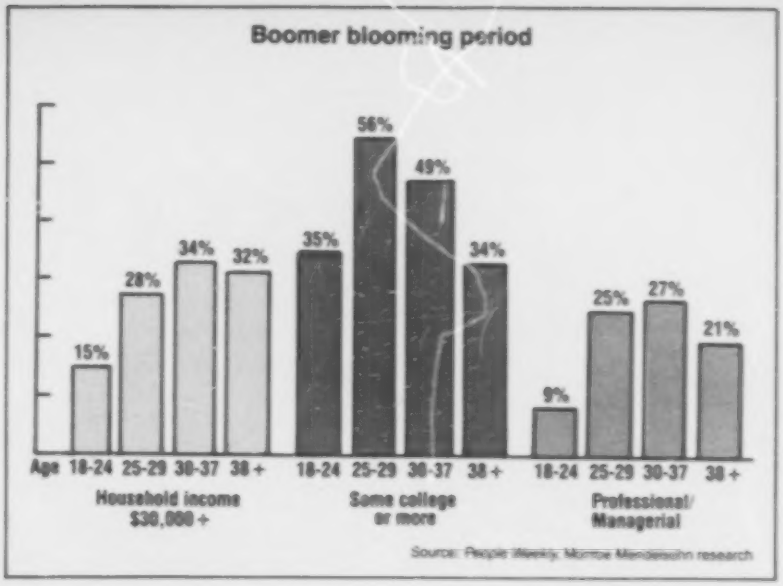
What has already happened is that "An awful lot of retailers who built a viable business in the past several decades focused on the Baby-Boomers," says C. W. Ress, president of C. W. Ress Associates, a retail consulting firm. "The problem, though, is that they didn't move. They didn't follow their changing lifestyles and values. Instead, they stuck with their original concept."

A prime example of the need to better understand this market is what has already occurred in the junior apparel business, with Lerner's having recently sold out to The Limited and Petrie acquiring almost everyone else in sight. While once there were 30 or more such chains, the list today contains far fewer names.

Those junior apparel chains that have survived have had to undergo a tremendous repositioning process in terms of dressing up their stores, adding quality and value. They aren't appealing to the teenagers anymore.

A chain that has found out just how tough such repositioning can be is The Gap. Having built its business by appealing to the youth-oriented market with jeans and other sportswear merchandise, The Gap moved late to change its image. The delay hurt. While the company managed to achieve an almost 9% increase in sales for its most recent fiscal year, ended Feb. 2, net income fell by a whopping 77%.

Yet, there are ways that it can be done, and the example cited most often is The Limited. "Outstanding" is



The Limited is regarded as doing an excellent job of following the moving target.

the adjective used when industry observers describe the chain's success in responding to this moving target. It understands its needs and wants and reflects these through not only the merchandise selection but also through service and ambience.

Other retailers are also finding opportunities to sell apparel to this group through targeting specifically the working woman. Reportedly, for example, Carson Pirie Scott has been successful with its Corporate Level full-service department catering to this group. Likewise, the New York City-based chain, Streets & Co. has been created entirely on the basis of serving the career woman's needs.

Developing ways to reach this group with apparel and other offerings is about to become imperative not just for retail success, but perhaps even for retail survival.

Statistics indicate that by 1990 nearly every other household in America will have as its head someone born during the Baby Boom years. These are households with money to spend.

Figures show that in 1984 the median household income for people between the ages of 25 and 35 was $22,776. This group presently controls 23% of the country's after-tax income. And they're getting richer.

For example, a study by the Life Insurance Marketing and Research Association indicates that already 25% of this generation makes at least $35,000, and they are only now approaching their peak earning years. The fact that many of these households contain two-career couples will spur income growth on even faster.

By the end of this decade, according to projections, these maturing Baby-Boomers will head every other household in America and will already account for more than half of all consumer expenditures. This represents what is the greatest single concentration of buying power ever assembled, according to Landon Y. Jones, author of *Great Expectations*, a comprehensive study of the Baby Boom generation, and assistant managing editor, *People Weekly*.

Yet, the big challenge for retailers isn't whether or not they have dollars to spend but rather how to understand what motivates and sets apart this special group of consumers.

This generation has already shown, in myriad ways, that it is different from the generations that have come before it. Most recently, as it has entered the adult years, "Instead of becoming adults in traditional terms, they kept drinking soft drinks, listening to rock music and leaning toward light beer, wine and the lighter distilled spirits," points out Joseph Plummer, executive vp of Young & Rubicam.

As Plummer points out, "Far more important than this generation's impact on history is their central role and impact on the near future. Therefore, we believe it is critical to understand this generation in depth in order to forecast the rest of the 1980's and the early 90's from a consumer marketing perspective."

Among the first retailers to really key in on trying to better understand the maturing Baby-Boomers was Federated Department Stores. As it began this decade, it started to explore the changes as the generation was about to "explode into their peak income years," according to the company's 1981 annual report. "Their large numbers and vastly increased earning potential offer great promise for retailers positioned to serve this upscale market."

Noting that the first wave of the Baby Boom reached 35 years of age in 1981, Federated believes that "As they grow older, Baby-Boomers will dramatically improve their relative earning position as they advance in their careers. Typically, job holders in the 35-44 age group have earnings 26% higher than the average for all earners." Throughout the 1980's, households headed by members of the 35-44 age group will be growing at twice the average rate of other household formations.

Obviously, this is good news for sellers of any products relating to the home. In fact, many observers believe that just as Baby-Boomers once expressed themselves through apparel, fueling junior apparel chain growth, this same desire for self-expression is now starting to show up through home furnishings purchases.

The projections for sales of various home furnishings categories appear to bear this out. For example, a study made by the Marketing Science Institute projects that sales of furniture

and home furnishings will increase from $72.2 billion in 1980 to $100.4 billion in 1990 in constant dollars. The study looks at the high number of household formations now taking place as the major impetus.

Likewise, the study points out that this will also help sales of kitchen and home furnishings, including cookware, tableware, flatware and holloware and decorator accessories "hold a very strong trend through 1990."

It also foresees more use of the home as a workplace, "the electronic cottage," and more entertainment in the home.

Ample evidence of such trends also shows up in a massive research study *People Weekly* recently completed with the aim of marketing its product to this consumer.

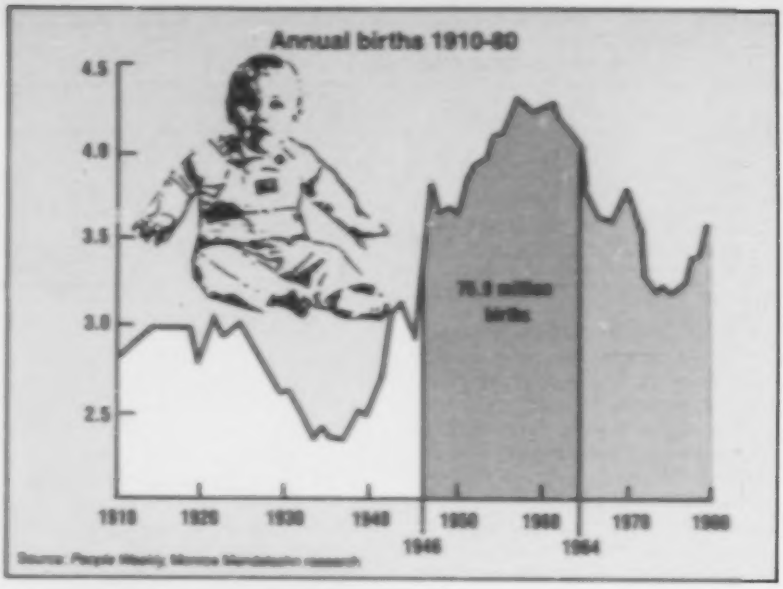
"Because Baby-Boomers are a group in transition, they represent tremendous potential for acquiring many products—especially those related to household formation," says the study. Home purchases are also shown to be on the rise.

One of the retailers most tuned into this trend is Sears, Roebuck, long dominant in almost all home furnishings categories, and especially in major appliances. Thus, Sears, while also emphasizing its apparel offerings, expects significant benefits from the fact that "so many of the Baby-Boomers are now in their prime home buying years." (Dayton Hudson is betting heavily on thistrend with the launch of its RC Branden's specialty home furnishings chain.)

An additional finding of the *People Weekly* study shows that among current home owners, 31% of the Baby-Boomers plan to stay in their current house and remodel it. This, then, bodes extremely well for still another retail segment—home centers.

"I think that because of the maturing of the Baby Boom generation we are right at the beginning of the time when they will start to concentrate on fixing up their homes. Consequently, I think the next few years will see substantial growth in the home center business," says a spokesman for Lowe's, headquartered in North Wilkesboro, N.C., and one of the nation's most successful home center operations.

He points out that today the home center industry has estimated sales of $60 billion annually; by 1990 it is projected to climb to $202 billion. "That's significant growth," he says, in somewhat of an understatement. While Lowe's has not yet researched specifically the maturing Baby-Boomers, it has studied behavior of members of the 25 to 54 age group. Eighty-five per cent of the households it has researched have indicated that they think spending to increase the value of their home is a good idea. "They view the appearance of one's home as a true reflection of taste, style, social position and personal identity."



Baby Boom home do-it-yourselfers are increasing retail sales at Lowe's.

In addition, these consumers view the home as an important place for recreation and for entertaining, according to the Marketing Science Institute study. Consequently, "The grouping of electronics, which includes hardware and software for television, audio, cable TV as well as the burgeoning home electronics classification and radio, television and electronic repairs, is predicted to increase from $22 billion in 1980 to $81 billion in 1990 [in 1980 dollars], a compound annual growth rate of 13.9%." This is the fastest rate of growth of any of nine merchandise groups included in the study.

This projected sales increase is fueling the growth not only of electronics departments in department, mass merchandise and discount store chains, but also of specialists in such products, operations such as Circuit City or the Federated Group.

As Keith Powell, Federated Group president, says, "Our primary customer from the beginning of our company has been the 25-49 age group. As the Baby Boom generation began to enter this demographic group, it prospered. So did Federated Group. "We began to see business take off from about 1977-78," Powell observes. He adds that the knowledgeability about consumer electronics among the current crop of 25-49ers is "1,000 times greater" than it was for their predecessors. And not only are they enamored with technology, but they are also endowed with "pretty good disposable income."

Yet, Plummer cautions even those retailers who appear to be well-tuned into the Baby-Boomers to beware of what he refers to as the Experience Loop. Members of this Baby Boom generation tend to think of the shopping, buying and owning process as being on a continuum, he says. If they are turned off anywhere along the line, the retailer can lose them.

Because they are accustomed to having so many options open to them, "It is no big deal for them to decide to go somewhere else" if they are turned off by such factors as the non-availability of late night shopping hours, for example.

Another factor which stands out in the Y&R research is "the great appreciation this generation has for esthetics," says Plummer. Many of the retailers who are currently having the greatest success in reaching out to these consumers (including again The Limited), "are those such as the Ital-

Television, audio equipment, musical instruments and supplies				
	1967	1980	The Forecast 1980-90	1990
Per capita sales*	$ 26	$ 87	+12.4%	$ 279
Retail sales ('80 dollars in millions)	$5,135	$19,706	+13.2%	$68,000

*Based on population 18 years of age and older.
Note: All percentages are compound annual growth rates.
Source: Marketing Science Institute

Electronics group				
	1967	1980	The Forecast 1980-90	1990
Per capita sales*	$ 40	$ 97	13.1%	$ 331
Retail sales ('80 dollars in millions)	$7,917	$21,957	13.9%	$80,700

*Based on population 18 years of age and older.
Note: All percentages are compound annual growth rates.
Source: Marketing Science Institute

ian-chain Benetton which presents a strong consistency of esthetics with what they're selling. Everything hangs together," he points out.

"The Baby-Boomers need to be stimulated not only in merchandise content, but in store design and presentation as well as advertising," says Karen Bohnhoff, vp-trend merchandising, Dayton Hudson Department Stores. "This is a result of their self-focus plus the increased knowledge and exposure that these people have compared to other generations," she adds, noting that this generation literally grew up with a TV in front of them.

According to Bohnhoff, Dayton Hudson has been focusing on finding out more about this generation "for a lengthy period of time" using a number of market research sources. Conran's is another company which early on responded to these changing population trends and created a concept based largely on the esthetic sense of this Baby-Boomer generation. This home furnishings chain is the U.S. subsidiary of Habitat-Mothercare. Since the opening of the first store in New York City in 1977, the chain has grown to 12 units. Plans call for a large number of additional units as the chain expands to both more urban and suburban locations.

In Great Britain, where the chain is already a dominant factor in the home furnishings marketplace, the latest Habitat offshoot is a new chain called Heals. As Pat Grabel, Conran's U.S. marketing director, explains the concept, "The idea behind Heals is to provide good-looking, higher-priced furniture, featuring better materials and more sophistication, so that anybody who's perhaps outgrown Habitat will shop there. We are trying to be more things to all people."

Although there are no plans at present to bring Heals to the U.S. market, Grabel adds that Conran's mix is also evolving to include more such merchandise. It's what she refers to as "moving the concept along" as Conran's target market matures.

Another chain that's moving its concept along is Great Atlantic & Pacific Tea Co. Like many other supermarket chains, A&P has had its problems during recent years. Now, though, it appears well-equipped with a new strategic plan, one that definitely involves reaching out to that aging Baby Boom consumer.

One of its major vehicles for achieving this goal is its FutureStore (*Chain Store Age Executive*, December 1984). The design of the store itself takes into account Plummer's Experience Loop. As Michael Rourke, vp-public relations, says, "The FutureStore is very unique in terms of overall design and atmosphere. All of our specialty departments and boutiques make the atmosphere more conducive to pleasant shopping."

He adds that with the FutureStore as well as with the design of other A&P units, "We are also definitely looking for the young families with young children. Our baby departments are very important in accomplishing this and we are putting a lot of emphasis on them."

Rourke points out an important fact. The maturing Baby-Boomers are creating a Baby-Boomlet of its own. Statistics from the National Center for Health show that from 1981 to 1985, first-time births will account for 43% of all births—and although the percentage is expected to start decreasing next year, there are more still on the way. Significantly, new parents are reported to spend $3,000 to $4,000 in new equipment for first-time births. That's good news for chains such as Toys "R" Us, Child-World, The Children's Place, and a host of others which are emerging in response to this projected demand. (*See story on The Enchanted Village.*)

Stronger children's wear sales are already starting to move up through the age groups, observes John T. Cullen, senior executive vp, Allied Stores. "Right now it's reached the 3X to 6X size grouping and business is very strong in this area. Over the next few years the strength of the children's business will go up through the older age groupings."

Yet, while these and other retail opportunities exist, reaching the Baby Boom, or rather the Adult Boom won't be easy. Although it is about to enter middle-age, it won't resemble earlier generations. It will continue to be diverse in its lifestyles and in its values. It will create a retail environment where the challenges are greater than ever. But the potential rewards are unprecedented. Retailers who respond, who follow the moving target, will be the great winners of the future. ■

—Jacquelyn Bivins

People magazine's exhibit, "Boomers: At work . . . At play . . .," is touring regional malls.

The secret to boosting store traffic is to include only enough product description to lure the consumer into the store.

Catalog options: Mail-order or store traffic?

Much has been written in recent months about whether or not consumers are being besieged by catalog glut. Ask your postman about it and he's sure to snarl and rub his aching back. But ask a retailer or a direct mail consultant and you'll find that there's always room for one more.

The growing use of catalogs by retailers parallels the growth of the mail-order industry itself. Catalogers, as retailers' mail-order counterparts have come to be known, are booming. Opportunities presented by decreased leisure time (as well as shopping time) have boosted mail-order sales *(see chart)* and spurred the number of new entrants into the marketplace.

Recognizing the potential, many retailers have piggybacked on this shift in consumer buying patterns to launch catalogs of their own. Whether this phenomenon has contributed to or resulted in catalog glut, however, is a matter of opinion.

"The ones [retailers] who aren't doing so well bring up catalog glut," claims one consultant. "The ones that are doing fine don't talk about it much."

Although on the surface it would seem retailers and catalogers are in business for the same purpose, that's a misleading assumption in all but a handful of cases.

While both retailers and direct marketers produce catalogs, the majority of retailers' catalogs are better suited to building store traffic, not mail and phone sales. The reasons for this, however, are not always known to retailers, many of whom don't understand why expected mail and phone sales aren't coming in.

The problem is that many retailers don't understand that their reluctance to set up separate mail-order operations (dedicated inventories, separate order fulfillment procedures) as well as their dependence on vendor co-op dollars make true mail-order sales difficult at best.

Most retailers' catalogs are better suited to building store traffic, not mail and telephone sales

Without a totally separate operation, retailers determined to build mail-order sales run the risk of not being able to provide adequate customer service.

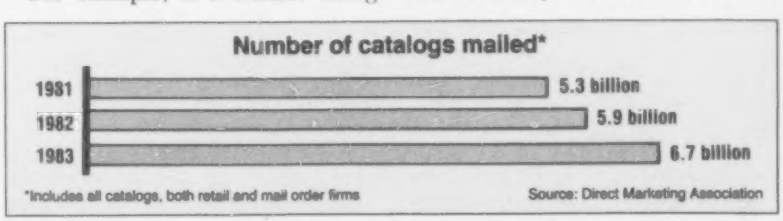
For example, if a retailer doing $100 worth of business in a certain department thinks he can boost sales to $110 just by sending out a catalog, he's making a mistake, according to Barry Marchessault, vp-direct marketing for Bloomingdale's.

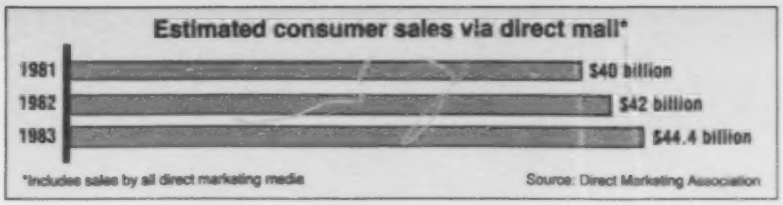
"What happens is you might create a demand for 500 items and those customers [whose orders aren't filled] are never going to shop with you again," he warns. "In the retail business you buy an inventory and sell it off. In the mail-order business, you create a demand and fill it."

The second stumbling block to retailers' mail-order sales is heavy reliance on co-op dollars, a situation which results in an insufficient variety of merchandise in a catalog.

Typically, those vendors willing to provide big co-op monies are those who manufacture name brand goods. When different retailers all rely on that money to cover expenses, the result is a large number of catalogs in the market place that list the same goods.

"What you end up with," says Marchessault, "is 10% of the vendors





***Decreased shopping time** has spurred the number of entrants in the catalog marketplace.*

pay for 100% of the costs." Distinguishing or unusual merchandise, essential to creating a catalog image, gets phased out in favor of branded goods. In addition, this lessens the need to purchase goods by mail because the same goods are so readily obtainable in any store.

Unlike most other retail chains, Bloomingdale's is a direct marketer. Its catalog operation, Bloomingdale's By Mail, is reaping the success of being able to represent the chain's trendy image via catalog. The merchandise, says Marchessault, is "unique, with high perceived value," in order to reach its core customer, precluding the extensive use of co-op dollars.

"If the catalog that's coming into the home is in the image of the reputation they've [the chain] built up, and it's representative of the niche they're trying to fill, only then is it going to be directed to the core customer they're trying to attract," explains Marchessault.

Besides merchandise offerings consistent with its trendy image, Bloomingdale's Marchessault also relies on using a consistent size (physical dimensions) for each type of catalog it offers. "There's a size representative of what we want to do with apparel; a size that's very good for home products and a third size for specialty catalogs," he explains.

At Neiman Marcus, senior vp, director of mail order, Bill Williams, points out that a chain's image is conveyed by much more than merchandise assortment: "It has to do with the use of visual space, quality of printing and paper and photography, your resource structure and [showing goods that are] the best representatives of your price points."

A consistent image should be maintained across every sort of media, Marchessault says. "The best ad for a retailer that you can see is when you pick up a newspaper and right away you know what store it is without looking at the logo."

The best example of this is the recognition factor that Jordan Marsh of Boston attained with its Jack and Jill catalogs. The first one using this theme, published five years ago, was so successful, that Jordan Marsh has come to be known by some of its customers as the Jack and Jill store.

While a catalog's image should be consistent with the chain's image no matter what the goal of a catalog, other factors do vary depending on whether the retailer is using the catalog to boost traffic or mail-order sales. According to Williams, there's a difference between how it's funded, photographed, stocked and what product descriptions are used.

"A retailer [trying to boost traffic] would try to fund the book with zero investment for himself and would select the goods based on who has co-op money vs. what the salability of the item is," Williams notes.

"You would select items that make a general statement about your business rather than items that would lead somebody to an immediate response," he continues, "and you'd give enough information to pique someone's interest but not enough to place an order.

"For example, you may show a dress in red and say it comes in red and blue and who the designer is, but you might not give sizes or fabric or care instructions. The customer would find that out when she came in the store. And then, if you don't have it in her size, you're going to sell her something else."

A retailer intending to reap mail-order sales, on the other hand, must approach the catalog from a different direction. For starters, he should be wary of letting his store buyers control it, says Dick Hodgson, a direct mail consultant with Sargeant House of Westtown, Pa. "In a store, if you've got a good piece of merchandise, you've got all kinds of options," he states. "You give it extra shelf space; you can put it in the window and put up extra store banners, run more newspaper ads, change the price or move it to a different department. In a catalog you've got one shot at it—either it sells or it doesn't sell."

According to Hodgson, buyers for catalogs must have a different orientation that requires much more forethought: "When you select merchandise [for a catalog], you have to have already decided how you're going to present it. They [the buyers] have to think, 'Can we take a picture of it?' 'Will the picture show what it has to show?' 'How much space will it take

in words to describe it?' 'Will there be enough space to do that?' 'Is the price point going to be right?' 'Can people order this without specific instructions?'"

Jordan Marsh of Boston is an example of a chain that has opted for using a catalog for positioning and to attract traffic, not necessarily for attracting mail-order sales. It relies on using copy in its catalogs that will entice the reader into coming into the store.

Donald O'Brien, senior vp-direct marketing, is adamant about Jordan Marsh's use of catalogs. "We are not direct marketers," he states. "I really don't want you to pick up the phone and order. I want you in the store." That way, he says, he has a much better chance of selling "a heck of a lot more" than a direct marketer.

"The basic difference between what we do and what a direct marketer does is the direct marketer is taking an entire store to one person; we're trying to take a lot of people into an entire store," explains O'Brien.

While a catalog should be consistent with the chain's image, other factors vary depending on its function

"I don't really want dedicated inventories of advertised-only merchandise; I want it on the floor," he says. "I want to make sure when you come in, I have it [the merchandise] in your size and color and hopefully if you buy that white coat I advertised in the book, you'll also buy the pumps to go with it and the bag that completes it." The success of the catalog is derived instead from increased store traffic and "radiation" sales.

Unlike the mail-order customer, who "buys a piece at a time," says O'Brien, the retail customer should be enticed into the store by the goods in catalog. Once there, the radiation sales are as important as the sale of catalog merchandise.

Jordan Marsh can then track its effectiveness "quite accurately," O'Brien reports. "We can track who got a book, who responded in the advertised departments and what that response meant to other departments in the store."

This is done by matching credit card sales against the names on the catalog mailing list, he explains. "Within a certain period of time, I know you got a catalog and you made a transaction in the advertised area of the store. I also know that during that same period, maybe you came in and bought a pair of shoes advertised in the shoe catalog and maybe you also bought a purse and a jacket."

Regardless of whether a chain opts for store traffic or mail-order sales, retailers have certain advantages over direct marketers that justify the production of either type of catalog even if other media is already being used.

For starters, says John Canova of Canova and Co., Alexandria, Va., they have two channels of distribution: the store and the catalog. "It provides the catalog with an extra avenue of sale and therefore an extra avenue for economic justification."

But it's much more than that, states Al Schmidt, currently president of Myron Manufacturing and formerly vp-direct marketing at both Brooks Brothers and Bergdorf Goodman.

"Retailers have a unique position in the catalog industry. They begin with a predetermined image in their marketplace," he says. "Even if a customer has never entered the store, if he lives in the market area he has been bombarded with advertising from that retail store for years. There is name recognition." In contrast, "a direct marketer coming into a fresh area has no recognition factor at all."

This existing image can be capitalized on in two ways: if a retailer's goal is to build traffic, mailing the catalog to known customers (*i.e.*, credit card customers) should produce results.

A retailer seeking mail-order sales, says Williams, can extend recognition of his chain through the use of national or regional magazines like *New Yorker, Vogue, Smithsonian* and special interest publications, thereby allowing the use of outside noncustomer lists. That way, a retailer isn't limited by geography, he says.

Hodgson reports that he recently worked with a department store chain on the West Coast that sought to build mail-order sales, not traffic. "We tested 22 [mailing] lists—21 outside lists and the chain's own house list. The house list came in No. 22."

Co-op money, which has already been shown to be detrimental to mail-order sales if used to excess, can be beneficial if used in moderation.

"The numbers for retail stores work differently from the way they do for a direct marketing operation," notes Schmidt. "The average direct marketing operation doesn't have the tremendous abundance of co-op dollars available to it. So the retailer doesn't have [to achieve] the same levels of success to remain in existence that a direct marketer does."

However, inclusion of an item in a catalog should not be based on the availability of co-op funds. "We don't turn down vendor monies," notes Jordan Marsh's O'Brien, "provided the vendor fits into the scheme of what we're trying to accomplish." ■

—Holly Klokis

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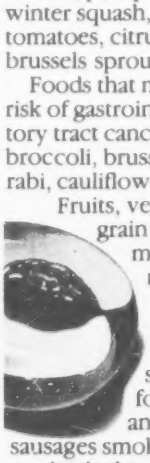
There is evidence that diet and cancer are related. Some foods may promote cancer, while others may protect you from it.

Foods related to lowering the risk of cancer of the larynx and esophagus all have high amounts of carotene, a form of Vitamin A which is in cantaloupes, peaches, broccoli, spinach, all dark green leafy vegetables, sweet potatoes, carrots, pumpkin, winter squash, and tomatoes, citrus fruits and brussels sprouts.

Foods that may help reduce the risk of gastrointestinal and respiratory tract cancer are cabbage, broccoli, brussels sprouts, kohlrabi, cauliflower.



Fruits, vegetables and whole-grain cereals such as oatmeal, bran and wheat may help lower the risk of colorectal cancer.

Foods high in fats, salt- or nitrite-cured foods such as ham, and fish and types of sausages smoked by traditional methods should be eaten in moderation.

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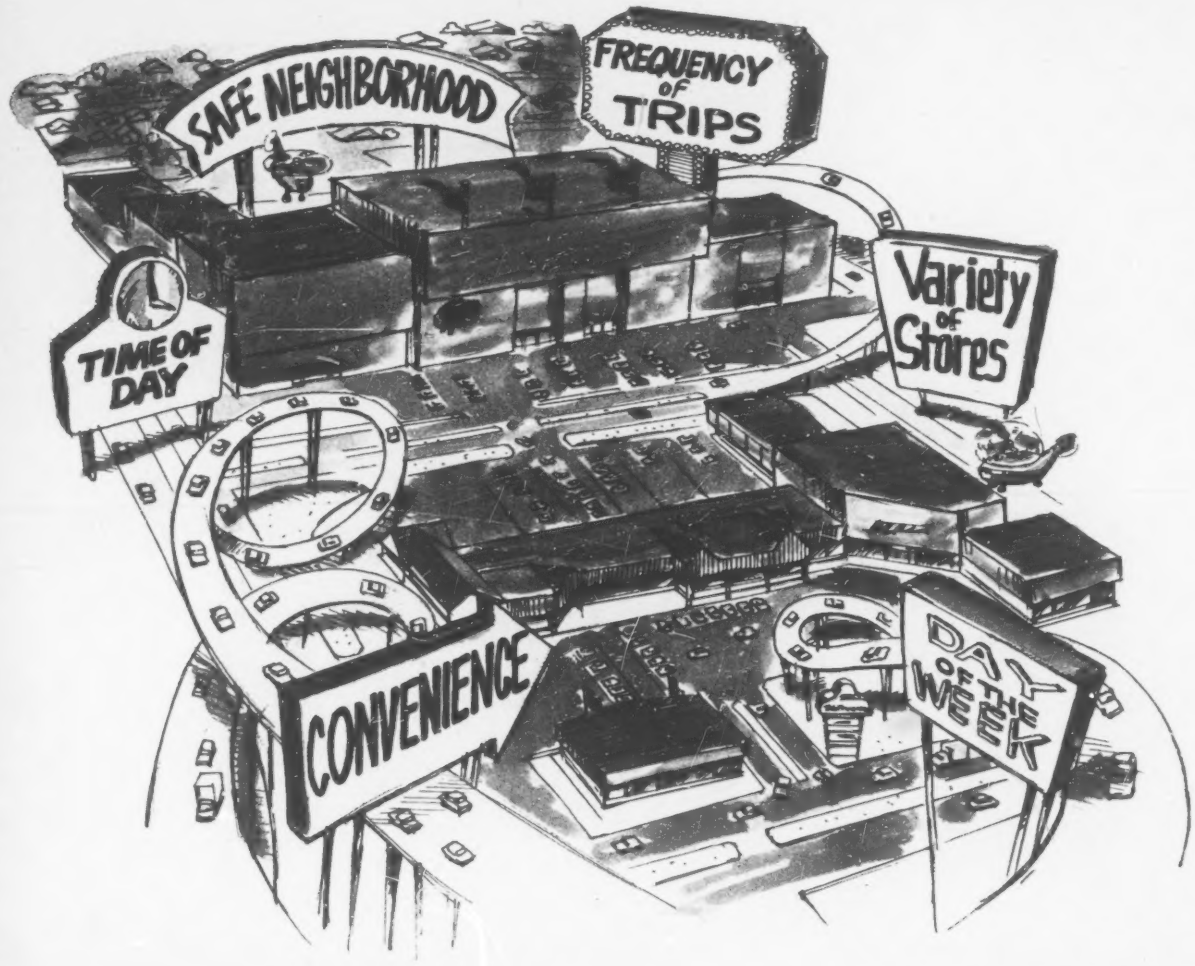

Survey discloses shifts in shopping center choices

Consumers have become increasingly concerned during the last four years about the safety of the neighborhoods where they shop but less price sensitive.

This is one of the inferences that can be drawn from a recent study of consumer shopping patterns conducted by *Chain Store Age Executive* magazine.

The research includes an exploration of the behavioral differences between primary shoppers of large enclosed malls and small neighborhood strip centers. A look at both shopping patterns and the underlying need-oriented influences of shopping behavior is included.

Interviews were carried out by telephone with heads of households in five major market areas: Boston, Atlanta, Indianapolis, Dallas and San Diego. The last time a similar study was conducted by this publication was in 1981.

Despite the high level of activity in strip center development, one of the study's most surprising findings is that a smaller proportion of the respondents are small neighborhood strip center shoppers than they were when the last study was conducted.

Heads of households in Boston, Atlanta, Dallas, Indianapolis and San Diego responded to the survey

Specifically, 85% of the respondents report visits to small centers during the past six months, down from 94% in the 1981 study. In contrast, 93% of the respondents visited large enclosed malls during this time frame, up considerably from 85% of the 1981 respondents.

One possible reason for this change is that concern over transportation costs, and specifically gasoline prices, was much more prevalent during 1981. That year also marked the real beginning of the most recent recession.

It is not surprising, though, that trips to neighborhood centers are much more frequent than to the major malls.

Visits to the neighborhood strips occur, on average, once every 2.7 weeks, compared with an average of once every 5.7 weeks for the mall shoppers.

In a related question, 73% of respondents report visiting a small strip center most frequently, up from 61% in 1981, while 26% visit a large enclosed mall, down from the 1981 figure of 38%.

Use of computerized directories is a feature growing in popularity; of those respondents who have them available, 75% have made use of them.

Factors influencing choices of centers

	Large enclosed mall		Neighborhood strip center	
	1985	1981	1985	1981
(BASE = TOTAL RESPONDENTS)	(162)	(179)	(292)	(283)
Reasonably priced merchandise	77%	89%	81%	89%
Safe surrounding neighborhood	76	66	81	89
Wide variety and selection of merchandise	77	85	79	81
Adequate parking space	77	75	76	75
Knowledgeable salesmen	64	70	60	64
Convenience to your home	62	70	63	73
Convenient evening hours	61	61	55	51
Store sales	54	66	56	60
Advertising and flyers promoting mall or store events, sales	40	32	35	32
Restaurants or fast-food outlets	25	31	26	21
Special events such as art shows	5	11	6	6

Source: *Chain Store Age Executive*

The greater frequency of small center shopping is logical since these centers usually include such convenience-oriented tenants as supermarkets and drug stores.

This slight shift may also be a reflection of the greater number of women in the work force who now have less time to drive the distances involved in mall trips.

The study shows, for example, the average drive time for large enclosed mall shoppers proves to be 17.4 minutes, or over 100% greater than the 8.4 minutes travel time to small neighborhood strips.

However, in addition to travel time, judging the selected factors that are "extremely/very important" in the decision to shop at a particular center, respondents clearly express their concern with neighborhood safety.

While in 1981 66% of those who shopped most frequently at a large enclosed mall placed safety on their list of such factors, the number is up to 76% this year. The increase is even greater for those who shop most often at a neighborhood strip center with the percentage of respondents including this factor rising to 81% from 60%.

Respondents' No. 1 complaint about their regular center is congestion—poor parking and crowds

The only other factor which increased in importance among mall shoppers is advertising and flyers promoting the mall or store events, sales, which was cited as "extremely/very important" by 40% of this year's respondents, up from 32%.

Increases are more prevalent, though, among those who shop most frequently at strip centers. Among the factors which are greater in importance are the following: "adequate parking space," up slightly to 76% from 75%; "convenient evening hours," up to 55% from 51%; "advertising and flyers promoting mall or store events, sales," rising 35% from 32%, and "restaurants and fast food outlets," up to 26% from 21%.

In contrast, the two price-related factors, "reasonably priced merchandise" and "store sales" decreased significantly for both groups. "Reasonably priced merchandise" is rated "extremely/very important" by only 77% of the large enclosed mall shoppers, down from 89% in 1981, and by 81% of the strip center shoppers, down from 89%. Similarly, the importance of "store sales" fell to 54% from 66% for mall shoppers; to 56% from 60% for strip center shoppers.

One possible explanation is that, particularly as a result of the heavy promotional activity during this past Christmas selling season, consumers now regard sale prices as a given at their favorite centers.

Saturday is the most popular shopping day for more than one-half of the neighborhood strip center (57%) and large, enclosed mall shoppers (56%). While Friday is next in popularity, it appears neighborhood strip center respondents (49%) were significantly more likely to visit their regular center on this day than were their large enclosed mall (34%) counterparts.

For large enclosed mall shopping, next in popularity as a shopping day is Thursday, for 27%. This is followed by: Wednesday, 25%; Sunday, 25%; Tuesday, 22%, and Monday, 19%.

Off-price centers: Getting to be a habit

Off-price centers were a new area of inquiry for this year's study of consumer shopping behavior.

The study indicates that shopping at such centers is becoming a fact of life for many consumers. This is probably due to two factors: the increasing number of such centers and the fact that consumers now perceive these centers as a place where they can find true values.

The research shows that 55% of all respondents have shopped at an off-price center within the past six months. They make such shopping trips only slightly less frequently than they visit regional malls.

For example, 32% of off-price shoppers visit a center once a month; 31% of regional mall shoppers visit a mall based on this same frequency. Likewise, 16% of off-price shoppers visit such a center once a week or more; 13% every two weeks and 4% every three weeks. Also, 18% of enclosed mall shoppers visit once a week or more; 23% once very two weeks and 6% once every three weeks.

However, there are more what can be termed "occasional" shoppers of off-price centers: 14% of this group shop at these every two months while 18% shop at such centers once every three months or less. Eight per cent of mall shoppers cite a frequency of once very two months for their visits; 15% once every three months or less.

Somewhat surprisingly, 7% of the research respondents report that they shop most frequently at off-price centers. On this measurement, though, small neighborhood strip centers, at 68%, and large enclosed malls, at 24%, still dominate.

Large enclosed mall respondents visit 6.3 stores on an average trip to their regular center.

The shopping patterns for neighborhood centers are similar. Friday is followed by: Thursday, 36%; Wednesday, 28%; Tuesday, 25%; Monday, 22%, and Sunday, 18%.

As for the time of day shopped, 46% of those who cite a mall as their prime shopping place are most likely to visit there between the hours of noon and 3 p.m. However, for the neighborhood strip center shopper, this time period ties in popularity with between 3:01 p.m. and 6 p.m. at 35% in each time frame. The latter time period came in third in popularity among the large, enclosed mall respondents, at 31%.

Slightly more popular was the time frame before noon, at 33%. This, though, was last in popularity for the strip center shoppers, at 27%. Instead, for them the hours between 6:01 p.m. and the center closing came in at third place, cited by 31%. Surprisingly, given the industry's emphasis on making late night shopping popular, this time frame was least popular for the mall shoppers, cited by only 27%.

Given the larger number of stores contained in such centers, it isn't surprising that the average duration of two hours and 10 minutes of a shopping trip to a large enclosed mall is significantly higher than the one hour and 15 minutes for a regular visit to a strip center.

Correspondingly, large enclosed mall respondents visit 6.3 stores on an average trip to their regular center, significantly higher than the average number (2.7) visited by small neighborhood strip center shoppers.

Awareness vehicles for sales or events

	Large enclosed malls	Neighborhood strip centers
Daily/Sunday newspaper	51%	48%
Circular/flyers	36	44
Weekly newspaper	20	21
Sign in store	15	19
Word of mouth	14	5
Television	6	4
Radio	4	2
Bill inserts	3	2

Note: Individual percentages do not add up to 100% due to multiple responses.
Source: *Chain Store Age Executive*

For both groups, newspapers are the primary source of information about sales and special events.

Approximately one-half of large enclosed mall (51%) and neighborhood strip center (48%), respondents find out about sales/events at their regular center through such advertisements.

Circulars/flyers, the next most prevalent means for obtaining such information, are used more typically for neighborhood strip center (44%) than large enclosed mall shoppers (36%).

On the other hand, word-of-mouth generates awareness about center sales/events for a significantly higher proportion of large enclosed mall (14%) than neighborhood strip center (5%) shoppers.

Respondents are least likely to receive information about sales/events at their regular center through broadcast media and bill inserts. Television is cited by only 6% of the mall shoppers, 4% of the small center shoppers; radio, 4% and 2%, and bill inserts, 3% and 2%.

The respondents' No. 1 complaint about shopping at their regular center is congestion, specifically inadequate parking facilities or crowds.

Specifically, 20% of neighborhood strip center and 15% of large enclosed mall respondents cited center parking facilities as an unpleasant aspect of their shopping experience. Similarly, crowds appear to be a problem to 16% of the mall shoppers and 14% of the strip center shoppers.

Approximately one-half of large enclosed mall (54%) and neighborhood strip center (51%) shoppers do not find any aspect of shopping at their regular center unpleasant or bothersome.

Zeroing in specifically on those respondents who report having

Average amount of time spent at most frequented center

	Large enclosed malls	Neighborhood strip centers
15 min. or less	1%	3%
More than 15 or 30 min.	4	22
More than 30 to 45 min.	2	8
More than 45 min. to 1 hour	19	29
More than 1 hour to 1 hour, 30 min.	7	11
2 hours	34	22
2 hours, 30 min.	3	—
3 hours	18	3
3 hours, 30 min.	—	—
4 hours	6	—
4 hours 30 min.	—	—
5 hours	2	—
6 hours	2	2

Source: *Chain Store Age Executive*

Travel time to most frequented center

	Large enclosed malls	Neighborhood strip centers
3 min. or less	1%	22%
4-5 min.	9	32
6-10 min.	24	23
11-15 min.	25	8
16-20 min.	21	6
21-25 min.	4	2
26-30 min.	8	2
31-40 min.	4	—
41-50 min.	3	1
More than 50 min.	1	—
Mean:	(17.4)	(8.4)

Source: *Chain Store Age Executive*

shopped at a mall sometime during the past six months, 21% of this group report that there are enclosed parking facilities available at their frequented malls. However, among this group 48% still say that they prefer open parking facilities.

The inclusion of food courts at most malls seems to be clearly paying off with 80% of the mall shoppers reporting having eaten at mall restaurants or fast-food outlets.

Food courts are but one example of the industry's drive to make shopping more convenient and more appealing to the consumer.

Another more current effort is the question of whether or not to have day care facilities in the center. When asked if they would use such a facility, assuming there are young children in the household, 65% of this group say no. No reasons were provided.

However, another convenience feature which appears to be growing in popularity is the use of computerized directories. Although only 32% of mall shoppers report the existence of such directories at the malls they frequent, of this group 75% have already made use of them. For the 25% who haven't, the reason most frequently given is "am familiar with the mall/stores" noted by 62% of this group, followed by "just like to shop around," 27%.

Among those shoppers who visit more than one large mall in a single week, the prime reason, according to 55%, is for greater variety of stores. Second is product availability, say 26%, followed by price, 21%, and convenience, 15%.

Small, neighborhood strip center shoppers also report variety of stores is their major reason for shopping more than one such center in an average week, according to 49%. However, here convenience is also much more important, say 36%, including being closer or closer to where the customer lives. Price is an important

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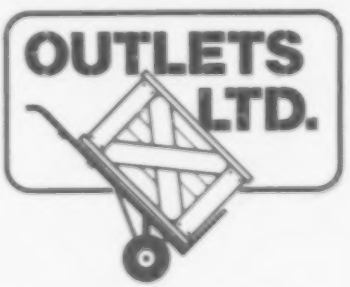

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Shopping frequency at enclosed malls	
Once a week	18%
Once every two weeks	23
Once every three weeks	6
Once a month	31
Once every two months	8
Once every three months or less	15

Source: *Chain Store Age Executive*

Shopping frequency at neighborhood strip centers	
Once a week	50%
Once every two weeks	16
Once every three weeks	3
Once a month	15
Once every two months	5
Once every three months or less	5

Source: *Chain Store Age Executive*

Shopping frequency at off-price centers	
Once a week	16%
Once every two weeks	16
Once every three weeks	4
Once a month	32
Once every two months	14
Once every three months or less	18

Source: *Chain Store Age Executive*

factor for 24%; while product availability is important for 22%.

There is still also a certain body of shoppers who aren't being attracted to malls and/or to strip centers. For the 15% of the survey respondents who haven't shopped at a strip center within the past six months, the reason is most often inconvenience, according to 36%. Twenty-five per cent feel they have "no reason/no need" to visit such a center, while 12% say that their desired products are not available. Prices perceived as being too much higher are a deterrent for 8%.

As for the 7% of respondents who have not shopped at a large, enclosed mall within the past six months, inconvenience is a major deterrent for a whopping 52%. Specifically, 46% say this is because such malls are "too far away from home." "No reason/no need to go there" is a deterrent for 27%. Prices being too high is a turnoff here for only 6%, and 6% also cite "desired products are not available."

Of the 1985 survey respondents,

Of the primary shoppers of enclosed malls, 67% are employed, up from 55% in the previous study

64% of the primary shoppers of large malls are married, as are 71% of the primary shoppers of small neighborhood strip centers. These numbers are up slightly from 61% and 65% in the 1981 survey, reflecting overall changes in the population over the intervening years.

A more significant change is that 67% of these mall shoppers in this year's study are employed, up from 55% in the last study. Again, this is a sign of overall improvement in unemployment numbers since 1981, plus the entry of more and more women into the work force.

Correspondingly, 65% of the strip center primary shoppers are now employed, compared to 60% when the last study was done.

The average household income for the mall shopper is $30,884, up from $25,154 in 1981; for the small center shopper it's $29,382, up from $21,371. Here inflation plus the higher employment figures are seen as the greatest factors producing this increase. ■

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Testing merchandising concepts

Progressive supermarket operators are using scanning data to explore issues beyond mere inventory replenishment

A step ahead of their counterparts in the department and specialty store sectors, progressive supermarket operators are using POS information to go beyond mere inventory replenishment. They're delving into such complex merchandising issues as how the introduction of a new item will affect the overall productivity of a merchandise category.

As a result, new productivity standards are being applied in the supermarket industry, while established standards are undergoing acid tests—giving merchandising execs a fresh perspective on their business.

The long-promised scanning data revolution is here, it seems, but food retailers are still divided on how to use it. Some are just conducting empirical tests, while others are using the data to drive fully integrated shelf-management or item-tracking programs.

Most of them, however, are still sitting on the sidelines and cheering—waiting for the dust to settle before they invest in one merchandise information system or another.

Regardless of which option retailers ultimately choose, scanning is the key to the whole revolution. "Scanning tends to make these systems more feasible to operate," says Bill Bishop, president of Willard Bishop Consulting Economists. "Early shelf management systems, for instance, utilized warehouse withdrawal data to determine inventory levels for each store. This information was awkward to use, sometimes difficult to interpret for slow-moving items and, of course, did not include the sales of any items that were delivered directly to the store.

"The only caveat," says Bishop, "is that scanning systems must capture sales figures accurately—but today, more companies are increasing their emphasis on the accuracy of their scanning operations."

Frank Dell, senior partner of Case and Co., a consulting firm in Stamford, Conn., has several other reservations, however. "Scan data is just not as reliable as some people think," says Dell. "There are still misses or errors by the cashier, shrink and damage to throw off the numbers. There are a number of ways an item can come off the shelf and not be recorded at the checkout."

Supermarketers use POS scanning data for applications such as shelf-space management.

Still and all, scan data is generally considered the cleanest source of product movement information.

"The use of scanning data, no matter what form it takes, will be an increasingly effective tool," says Bill Mihal, corporate sales planning manager of General Foods. Mihal is in charge of the ScanLab program, in which General Foods teamed up with Dick's Supermarkets in Wisconsin to develop a system for organizing scanning data into a usable form for merchandising decisions.

At Dick's, the scan data was used by grocery department managers in all five of its stores. In the peanut butter and jelly section, for instance, an alteration of shelf set—based on ScanLab reports—generated an increase of 6.5% in dollar sales. Unit sales increased 7.7% and gross profit dollars expanded about 13%. Other tests had similar results.

"In fact," says Mihal, "this use of scanning data will be a bigger carrot for retailers than the hard benefits of scanning—shrink reduction, accuracy at the point-of-sale and labor savings. The payback will vary from retailer to retailer, but it will be fast—and probably quite substantial."

The ScanLab system is currently being offered through Food Marketing Institute at a price of $2,000, which, according to Mihal, covers the cost of the software itself as well as installation, training for both user and data processing personnel, operation manuals and a toll-free service number. ScanLab is designed to run on IBM mainframes.

"The applications," says Mihal, "are endless. You can look at your product assortment and see if it's right for the demographics of a particular store. You can track new items and get a read on their success—or lack of it. You can test shelf allocation, using either ScanLab alone or in conjunction with one of the packaged shelf management programs.

"What about advertising and promotion? You can get an early warning as to how well an ad is doing—applying current data to historical trends—and fine-tune your ordering process during the sale week. Down the road, people will be testing pricing, planograms and departmental positioning in the store. All you have to do," he says, "is test in a few stores and then

Scan data can be used to track new items and their success (or lack of it), test shelf space allocation and measure advertising effectiveness.

make projections based on that data."

Of course, certain fundamentals have to be in place before a program like ScanLab can proceed effectively. First, says Mihal, there must be a commitment to apply the necessary resources to the project—to apply whatever time and money is needed, and to use the data when it becomes available.

Second, a retailer "needs to think about implementation within the organization," he says. "There's got to be education and involvement—particularly on the part of upper management. You've got to ask yourself how the data will be used."

Third, there must be an outside resource—a consultant, for instance—to help the retailer overcome daily hurdles and bugs in the system. Since the software must be made to fit with the host of different systems currently in use, it can take some time to work those bugs out.

According to Mihal, there are now five retail and wholesale concerns in various stages of ScanLab start-up. They include: Twin County Grocers and Wakefern Food Corp. in New Jersey; Star Markets in Maine; Fry's Food Stores in the greater Phoenix market; and Fleming Cos. in Alabama.

"ScanLab is still the state of the art for pure organization of scanning data," says Tim Hammonds, senior vp of FMI. "But there are systems that take the process a step farther—programs that handle shelf space allocation, for instance."

In a shelf space management program, says Bill Bishop, scan data is analyzed using a formula similar to the following: $A = (F \times M) + Q$ (*see accompanying story*).

A stands for "allocation," or the number of units needed to support sales of a given item. F represents the "stocking factor," or the proportion of sales that takes place between the time an order is written and the next time the order is written. M stands for "average weekly movement"—as tracked at the point-of-sale—and Q equals "purchase quantity"—usually a case pack, unless orders are placed in smaller quantities.

"Without a space management system," says Bishop, "it would be almost impossible for the retailer to guess the best allocation for a given item. For fast-moving items, the tendency is to underallocate—and you can imagine that this would lead to more frequent stock-outs."

Gross margin vs. Direct product profit

	Gross margin	DPP
Baby food	11%	3.41%
Beans and rice	11	3.96
Shortening and oil	11	7.26
Paper products	19	7.22
Cake mix	19	10.07
Jelly and jam	22	16.72
Spices and salt	31	30.38
Soap	15	10.05
Household cleaners	24	17.28
Ice cream	23	6.21
Butter	10	4.60
Frozen vegetables	34	23.12
Frozen fruit	24	17.28
Cigarettes	12	13.20
Dentifrices	31	18.60
Facial tissues	15	—

Source: Case & Co.

Bishop says that the power of scan data analysis was made evident to him during his work with the Pillsbury Scan Share Group—an early experimenter with POS-gathered information. For instance, one retailer involved in the group wanted to test the effectiveness of its major display program. He used scan data to gauge the sales of a gallon bleach product when it was featured in such a display.

The scan data provided an unexpected answer. Whereas it was generally believed that a display would only remain effective for a few weeks at most, sales for the gallon bleach product actually held up for the entire 12-week period of the display.

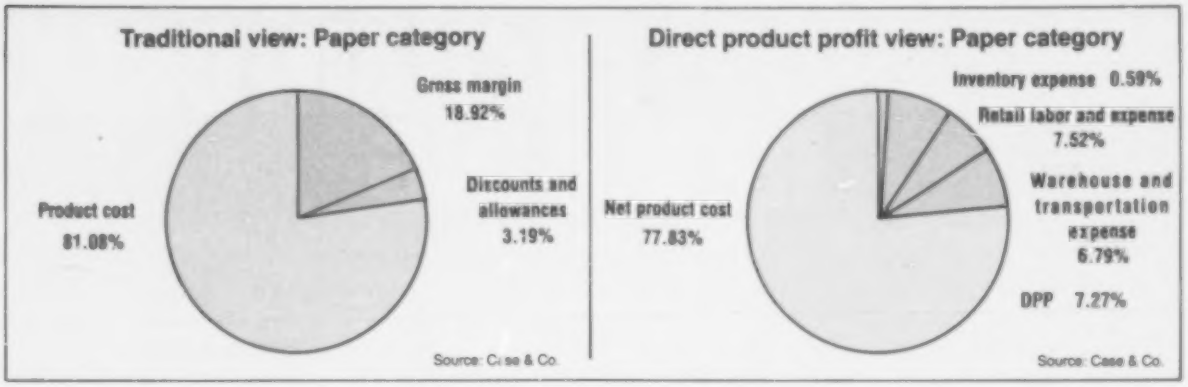
"During the analysis," says Bishop, "this retailer also became interested in determining the impact of display activity on the entire category. The question here was whether the display activity tended to cannibalize the business of competitors or to expand overall category sales.

"It was evident from the analysis," says Bishop, "that while there was some shifting within the overall category, total category sales expanded and held for the entire duration of the display program." Bishop notes that this is the way most scanning data experiments are conducted—focusing on an entire category, rather than just on a specific item.

The next issue was the effect of display status on a noncategory leader. "In this instance," says Bishop, "the retailer looked at the impact of displaying a brand that, prior to display, held only fifth place in its category."

The result? "The fifth brand moved up to No. 1 in the 12-week SAMI report and still held third place in a brand ranking one year later—a clear indication of the retailer's ability to have a major impact on what sold."

The third question was whether this type of display program would be effective for the introduction of new items. To test this issue, says Bishop, "the retailer used the same long-term



display program to introduce a new private label apple juice. In this instance, the national brand was displayed alongside the new private label juice for 15 weeks."

From the time the display went up—in the second week of the analysis—sales for the new item were off to an exceptionally strong start. Even as the displays were pulled down in the 13th and 14th weeks, the sales for both items that were displayed remained strong (compared to the pre-display period).

In the preceding case, says Bishop, scan data was used for analysis—in other words, questions were applied to everyday information. However, says Bishop, other food retailers have used scan data to conduct actual experiments—manipulating variables to see what the effects would be.

One retailer, for instance, enlisted the aid of his supplier to test the impact of display status on soft drink performance—in this case, a new two-liter product. The experiment lasted eight weeks, during which four sets of conditions were tested: shelf display only, no secondary display, regular retail price of $1.09; shelf display plus secondary display, regular price of $1.09; shelf display only, no secondary display, reduced price of 89¢; shelf display plus secondary display, reduced price of 89¢.

The retailer found that secondary displays alone increased case movement by 49%. Reduced price alone increased case movement by 75%—and secondary display together with reduced price increased case movement by 193%.

Dollar sales told a slightly different story. In the no secondary display/reduced price scenario, dollar sales went up only 42%—vs. the 74% increase in case movement—reflecting the lower retail price per unit.

But the second treatment—secondary display, but regular price—turned out to be the one that produced the highest gross profits for the category. As case movement increased by 49%, category gross profit increased by 4%. This translated to an $88-per-week improvement in gross profit dollars.

Promotional pricing and display dramatically increased sales—a whopping 193%—but gross profit dollars actually declined.

One of the most advanced shelf space allocation programs is offered by ABA Groups, Hermosa Beach,

Mihal (l.): "Payback will vary from retailer to retailer." Dell: "DPP is becoming a fixture."

Calif. According to Brian Harris, president and ceo, his shelf space management program—dubbed "Apollo"—is designed to run on the IBM personal computer. Data can be downloaded from the mainframe after the scanning numbers are "crunched"—or received directly from an in-store scan controller.

The Apollo system generates a variety of reports, which provide a detailed evaluation of the current use of space in a category—on both an item-by-item and total category basis.

It automatically allocates space based on a variety of criteria, including: minimum constraint criteria such as number of facings, restocking standards or days-of-supply; balancing of days-of-supply for all products in the category in order to optimize shelf holding power; balancing of share-of-space with share-of-sales (measured in dollars, units, etc.); balancing of share-of-space with share-of-profit, and optimization of return on inventory investment (ROII) per unit of space in the category.

The Apollo system also allocates space in a category using different criteria for different brands, sizes or individual items. For example, space for Coca-Cola can be allocated on the basis of share-of-space to sales, while Pepsi space is allocated on the basis of minimum holding power.

Beyond that, the Apollo model can be used to test "what if" questions. The results of allocating space according to a single criterion can be previewed on-screen, both in report and schematic picture form, before a final space allocation decision is made. When profit is the criterion, the Apollo user can apply direct product profit instead of gross profit. In fact, DPP is becoming the preferred standard for shelf space allocation decision systems.

"DPP is becoming a fixture in retailing," says Dell of Case and Co. As the developer of one of the two foremost DPP models, Dell is naturally one of the method's most vocal proponents. He is now working with FMI to establish standard methodologies for DPP models.

"Direct product profit is the net profit contribution of an item after all allowances are added to the gross margin—and all the handling costs are deducted," says Dell. In Dell's model, allowances include merchandising allowances as well as distribution allowances (freight or backhaul allowances). Handling costs include store-level (retail) direct labor, retail inventory expense, retail operating expense, transportation expense, warehouse direct labor, warehouse inventory expense and warehouse operating expense.

The result is a figure that more accurately reflects the value of an item to the retailer. Comparison with the amount of space allocated to that item affords the retailer a tool with which

to fine-tune shelf sets, secondary displays and so on.

Paul Fritzer is the director of grocery merchandising for Hannaford Bros. The Scarborough, Maine-based supermarket operator has had a proprietary DPP system for about five years now. It was designed, he says, to be a retail tool for setting shelves, merchandising sections and item performance tracking.

"It's a tool for our stores to use—to get the people more involved," says Fritzer. "But, of course, we get different results for each store. Transportation costs are a big factor, and since the distance from the warehouse varies from location to location, the DPP will vary."

Where Hannaford's outlets have scanning capabilities (and less than a fourth do), their shelf merchandising system is fueled with scan data. Where scan data is not available, warehouse withdrawals are used.

Scanning information is sent by telephone to Hannaford headquarters, where a proprietary mainframe system—not unlike ScanLab—is organizes the data. Then the firm's DPP system performs the analysis.

"And we've gotten some pretty positive results," says Fritzer. "One revelation was the importance of the cube of an item. We found that an item with a low gross profit and a small cube can be better than one with a high gross profit and a large cube. It refined our thinking about paper products, for instance."

Dell points out that the DPP analysis need not be performed on a mainframe. "The best way," he says, "is to do your numbers crunching on a mainframe and then download to a PC. That way, you don't tie up the mainframe." In fact, DPP programs for PCs are already available.

"The biggest problem with DPP analysis," he says, "is that each retailer has a different way of doing things, and therefore a different set of expenses. Sometimes the component costs are difficult to estimate."

A number of other retailers and wholesalers have already started to make decisions using DPP. Safeway, King Soopers and Shaw's, to name a few, have initiated such programs—but some of these are based on warehouse withdrawal information. Scan data should make these tools even quicker—and more accurate.

The most formidable barrier to the use of all scanning-fed systems, says Hammonds of FMI, is "the feeling that they will make all your decisions for you. But they don't. Obviously, they can't take into account real-world factors—like which items in the store really bring your customers in, or the nature of your relationship with a particular vendor."

"If bread and milk don't have a good DPP, I still wouldn't throw them out of the store," notes Dell.

"All the systems provide," says FMI's Hammonds, "is a measurement of how much a specific deviation [from the system's recommendations] is costing your company. They're just part of the process—a tool, like gross margin computation. At that point," says Hammonds, "the decision is up to the retailer." ■

Computing shelf space allocation

A Randall's Food Market in Houston orders a high-volume grocery item five times a week—but it does almost one-third of its business between the two orders that span the weekend. Therefore, they need about a third of their weekly inventory in that item as safety stock.

Applying the space allocation formula—A = (F x M) + Q—we'll assign 0.35 to the "F" variable, representing the proportion of weekly sales that take place between orders.

The item sells at the rate of 300 per week, so we assign 300 to the "M" or average weekly movement variable.

And since the item is packed 48 to the case, a value of 48 is assigned to the "Q" or purchase quantity variable.

With a simple calculation we find that allocation, or "A," equals (0.35x300) + 48 or 153. So Randall's should allocate 153 shelf spaces to this item in order to maintain current volume.

What if the store were limited to one grocery order per week? Then, the equation would be (1x300) + 48, calling for an allocation of 348 spaces.

Source: Willard Bishop Consulting Economists

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